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Housing Assistance Council

1025 Vermont Ave., NW, Suite 606, Washington, DC 20005, Tel.: 202-842-8600, Fax: 202-347-3441, E-mail: HAC@ruralhome.org

Web site: www.ruralhome.org

October 16, 2001

Ms. Jennifer Johnson
Secretary
Board of Governors of the
Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
RE: Docket No. R-1112

Robert E. Feldman
Executive Secretary
Attention: Comments/OES
Federal Deposit Insurance Corporation
550 17th St. NW
Washington, DC 20429
No docket number needed

Docket No. 01-16
Communications Division
Public Information Room
Mailstop 1-5
Office of the Comptroller
of the Currency
250 E St. SW
Washington DC 20219

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G St. NW
Washington, DC 20552
Attention: Docket No. 2001-49

Gentlepersons:

The Housing Assistance Council (HAC) believes that the Community Reinvestment Act (CRA) has been instrumental in increasing lending and investing to rural communities and many others around the country. HAC is a national nonprofit organization dedicated to improving housing conditions in rural America. In addition to our technical assistance and research activities, HAC is also a community development financial institution (CDFI). We administer several loan funds that provide much-needed resources to local organizations to produce decent, affordable housing for low-income rural residents. This work has benefitted from relationships with lending institutions and these relationships have developed, in large part, because of the CRA.

The regulatory changes to CRA during 1995 strengthened the law by emphasizing a bank's performance in providing services and in making loans and investments. The federal banking agencies must now update the CRA regulations in order to further reinvestment in low- and moderate-income communities as well as rural areas and underserved minority communities.

**Building
Rural
Communities**

*Celebrating
30 Years
1971-2001*

Southeast Office
615 Peachtree St., NE
Suite 1130
Atlanta, GA 30308
Tel.: 404-892-4824
Fax: 404-892-1204
Southeast@ruralhome.org

Western Office
131 Camino Alto
Suite D
Mill Valley, CA 94941
Tel.: 415-381-1706
Fax: 415-381-0801
Western@ruralhome.org

Southwest Office
3039 San Pedro, NE
Suite C-7
Albuquerque, NM 87110
Tel.: 505-883-1003
Fax: 505-883-1005
Southwest@ruralhome.org

Midwest Office
10920 Ambassador Drive
Suite 220
Kansas City, MO 64153
Tel.: 816-880-0400
Fax: 816-880-0500
Midwest@ruralhome.org

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We urge the regulatory agencies to adopt these policies:

- The Federal Reserve Board must enact its proposed Home Mortgage Disclosure Act (HMDA) reform to include information on interest rates and fees so that subprime lending can be assessed on CRA exams. HMDA data collection in rural areas must also be improved. HMDA data must be coded to distinguish metro from nonmetro lending. Nonmetro loan transactions should also have accompanying census data (at present, only loans in metropolitan statistical areas [MSAs] have census tract level data). HMDA data should also be coded to differentiate between subprime and manufactured housing lenders, because manufactured home lenders are more widespread, have higher interest rates and do more business per household in nonmetro counties. Lenders must be penalized for not providing race data and all data must be required to be geocoded.
- The provisions relating to asset size and holding company presently provide a reasonable and sufficient standard for defining a "small institution" and should not be changed to include more institutions. Expanding the definition to include more institutions would have a negative impact on consumers in rural areas, as fewer financial institutions would be required to submit detailed accounts of how they serve their communities. Raising the size limit for small banks under CRA may decrease access to credit and other banking services for lower-income residents, small and minority-owned businesses and farms, and community development efforts in rural communities.
- The small bank exam should be improved in order to provide adequate detail about an institution's performance and provide incentives for small banks to improve their performance. Small banks should be examined on the amount of loans in low, moderate, and middle and upper-income geographics in the bank's assessment area(s). Small bank exams should also include information on community development services. Incentives for small banks to consider innovative or complex programs to receive better CRA ratings are absent and should be provided. Small bank exams, which now only occur every four or five years, should be conducted more often.
- The procedures for delineating assessment areas also need to be changed if CRA is to adequately capture the activities of banks in the rapidly evolving financial marketplace. The recent consolidation of financial services has caused financial institutions to focus their attention on large cities, while devoting less attention to smaller communities and rural areas. The provisions on assessment areas do not provide a reasonable and sufficient standard for designating the communities within which the institution's activities are evaluated during an examination. Financial

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institutions with activities based outside of a branch network are examined solely on the basis of the area around the branch. Assessment areas should be delineated not only by where banks have their main office, branches, and deposit taking ATMs, but also by where they make a significant portion of their loans. In addition, large financial institutions should be evaluated on their service to distinct parts of their assessment areas - such as metropolitan areas and nonmetropolitan parts of a state - in order to ensure they are in fact meeting the differing needs of these areas.

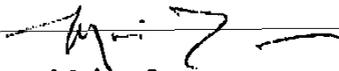
- If CRA exams hope to keep pace with ongoing changes in lending activity, HAC strongly believes that CRA exams must rigorously and carefully evaluate subprime lending. Significant research concludes that too many creditworthy borrowers are receiving over-priced and discriminatory subprime loans. CRA exams must provide an incentive to increase prime lending. HAC proposes that lenders that make both prime and subprime loans will not pass their CRA exams unless they pass the prime part of their exams.

HAC supports the positions of the National Community Reinvestment Coalition (NCRC) and the Center for Community Change with respect to the large bank tests, fair lending issues, and others. We will not spell out in detail here the arguments with respect to those positions because they are well presented in the comments of those organizations.

HAC believes that our suggestions for updating the CRA regulation will produce CRA exams that will ensure that rural areas and small communities are provided with adequate access to credit. These suggestions will also produce exams that are rigorous, performance-based, more consistent, and that are able to better capture the lending, investment and service activity of rapidly changing large banks. These recommendations lead to enhanced enforcement of CRA.

Thank you for your consideration.

Sincerely,



Moises Loza
Housing Assistance Council

cc: Josh Silver, NCRC